

From: Sonia Arroyo [SARROYO]
Sent: Friday, September 24, 2004 5:21 PM
To: Sammy Levis
Subject: DL'S COMMENTS

Question from Jim:

I understand that you have predetermined spread on LIBOR, but LIBOR has moved up a lot. At the same time, the long-end has fallen, which is likely to have resulted in lower mortgage rates.

Answer: The product that goes into our IO's namely, non-conforming loans carry higher interest rates and have stayed higher than before. (6 months ago).

Question from Jim:

And, if the yield curve is flattening, your floating rate interest costs are rising, lowering your net interest margin on your IO, correct? If that is the case, how can the IO valuation get better? hedging?

Answer: (PSA) Much slower prepayment speed Caps, hedging

